IPPC starter questions for house energy 10-31-17

1. Why do we need PURPA?
2. Explain how you have no impact on ratepayers
3. What is the impact to taxpayers and ratepayers if your plants close?
4. What is the total cost of your current contracts and what will they be under the proposed avoided costs?
5. What's wrong with the hybrid proxy methodology?
6. What do you recommend as an alternative to the hybrid proxy?
7. What other contract options do you have besides PURPA and avoided cost?
8. How were you affected by energy legislation in 2008 and again in 2016?
9. How does the REC market help you?

Testimony from the Independent Power Producers Coalition of Michigan

House Energy Policy Committee

October 31, 2017

Thank you, Chairman Glenn, and members of the Committee, for this opportunity to testify on the Public Utilities Regulatory Policies Act of 1978 (PURPA), and our recent experience with the Michigan Public Service Commission (PSC) in setting rates for qualified facilities under this federal statute.

The Independent Power Producers Coalition of Michigan represents existing, long-term, baseload renewable electricity generators 20 megawatts or less in size and meet the requirements under PURPA as "qualified facility".

Many of these power producers have been generating baseload, renewable power since the mid-1980s and several longer than that – from resources such as landfill gas, biomass, municipal solid waste, and hydroelectric dams. Each sells energy and capacity to Consumers Energy under long term power purchase agreements, the first of which expired in December 2015. More contracts will come to term between now and 2022.

The purpose of our testimony today is to share what we see as flaws in Michigan's application and execution of federal energy policy, that will result in the closure of existing baseload renewable power generation from local resources and with them a suite of public benefits that other forms of power generation don't provide.

BACKGROUND

The legislative intent of PURPA is clear: to diversify the nation's energy resources and give small independent power producers the ability to sell their power at just and reasonable rates to monopoly utilities. Within this construct, Congress recognized the "public good" that's unique to QFs. This law also recognizes that monopoly utilities have a natural preference to build their own resources, or procure energy and capacity at unfavorable rates to a QF.

These facilities rely on local resources, which provides jobs and services to the local communities and the state, such as flood control, waste management and forest health and stewardship tools.

To achieve its goals, PURPA:

- requires regulated utilities buy energy and capacity from QFs at their avoided cost, under reasonable contract terms;
- obligates states to determine avoided cost;
- cannot be discriminatory toward QFs;
- must be "in the public interest"; and
- requires avoided costs be just and reasonable to the ratepayers of the utility.

PURPA in Michigan

In 1982 the Commission set avoided cost, that is the *costs* the utilities *avoid* by not producing the needed power themselves For IPPC members, the avoided cost is based on Consumers Energy's fleet of coal plants.

One of the first PURPA contract in Michigan was signed in 1985 by Hillman Power Co. and Consumers Energy.

More recently, following months of unsuccessfully negotiating a new PPA with Consumers Energy, the initial terms of the Hillman power purchase agreement came to term at the end of December 2015. The initial agreement was extended through May 2017, pending the outcome of a complaint (Case No. U-17981) filed with the Commission that Consumers Energy violated its PURPA obligation to purchase energy and capacity from QFs.

Presently Hillman Power and several other IPPC members with lapsing contracts have continued to operate under orders issued in this case by the Commission, until new agreements are executed.

In preparation for opening an avoided cost docket, a PURPA working group was convened as order by the Commission in case U-17973, where PSC Staff (Staff) presented the "hybrid proxy" model for setting avoided costs. Staff, in its Final Report in April 2016, recommended the Commission use this model. The Commission subsequently opened Consumers Energy's avoided cost Case No. U-18090, and on May 31, 2017 issued a partial order where the Commission adopted the hybrid proxy model for determining avoided cost rates.

The purpose for avoided cost modeling is to forecast energy and capacity costs of the next-build power plant, which is expected to be fueled by natural gas. The hybrid proxy model is exactly as it sounds: a mashup of two disparate technologies – a simple cycle combustion turbine ("peaker") for establishing avoided capacity, and a combined cycle natural gas ("baseload") plant for establishing avoided energy.

Such a power plant doesn't exist, will never be built, and is an impracticable model for establishing the Company's avoided cost under PURPA. In fact, the hybrid proxy methodology was chosen, in part, because it could render a "lower cost" for energy and capacity than basing the proxy on other, truer forms of avoided costs to the utility.

The IPPC is not alone in its opposition to the hybrid proxy model. DTE Energy, a regulated utility, which has the same obligation to buy QF energy and capacity at the avoided cost rate set by the PSC, has filed a petition for rehearing in its PURPA case, U-18091, stating avoided cost should be the *full and actual avoided cost* of the next-build power plant; for DTE it will be an 1100-MW combined cycle natural gas plant for which they've filed for a certificate of necessity with the PSC.

In addition to adopting the hybrid proxy methodology in its first order, the Commission remanded the case and asked the parties to work on the various inputs such as forecasts on natural gas costs, construction and financing costs of building and maintaining a power plant, and efficiency factors for the gas turbines expected to be used in the next build.

On July 31, 2017 the Commission issued a second partial order, adopting most of the inputs recommended by Consumers Energy and Commission Staff, and remanding the case so the parties could focus on a few remaining inputs, particularly the forecast prices of natural gas, and natural gas transportation costs.

When the workgroup process began, Commission Staff expected the avoided cost rates to land around 8 cents per kilowatt hour. Then, with each remand and each round of number crunching, the rates produced by the hybrid proxy were reduced. Sometime this fall, the Commission will issue issued its final orders in the case, producing rates that, at best, range between 6.0 cents and 6.5 cents per kWh for non-hydro facilities; 5.5 cents to 6.0 cents for hydro QFs.

These are levelized costs over the 10-20 to years of the long-term power purchase agreement; no fuel cost adjustments, no CPI adjustments, no escalators similar to what the utilities receive for their own power plants or PPAs.

Arguments are also made that baseload renewable power provided by these QFs is more expensive than other renewables, like wind and solar. These technologies certainly have their place in Michigan's energy portfolio, but the comparison is apples and oranges. These are intermittent sources that benefit from a 2.2-cent federal production tax credit (PTC) that cannot be compared to baseload renewables that don't qualify for those credits, yet bring baseload attributes and other benefits to the table that wind and solar do not.

Status

If approved, avoided cost rates paid to IPPC members and other QFs will drop between 14 and 30 percent, to rates paid 20 years ago. It is a financial setback that will cause many of these facilities to close; the impacts of which have not been acknowledged by the PSC and significantly undervalued throughout this process.

This is what is at stake:

- More than 100 good-paying jobs in rural communities will be lost;
- Loss of a $15 million biomass fuel market that supports the forest products industry, loggers, and forest managers, and hinders management of the state's forests;
- Safe disposal of 2.7 million scrap tires collected through the DEQ's Scrap Tire Management Program. Disposing these abandoned tires would cost taxpayers about $4.6 million annually;
- Increased tipping fees for metro Grand Rapids – approximately $2 million or $10 per ton of municipal solid waste;
- A $100 million stranded public asset;
- Loss of commercial/industrial tax base to our communities
- Abandoned hydroelectric dams that would saddle taxpayers with millions in maintenance costs, or tens of millions of dollars in removal costs;
- The loss of high value lakefront property and associated ad valorem tax base;
- The loss of fish and wetland habitats and recreational opportunities;

- A less resilient, less reliable electrical grid;
- Technical support for the electric grid;
- 20 percent loss of *unsubsidized* renewable energy.

In short, avoided costs as we expect to be approved by the Commission in U-18090, are discriminatory, unfair, and are unsustainable for QFs. These rates fail to acknowledge the total value of capacity, energy and public benefits that comes with this power. Setting avoided cost that shutters long-term, existing, baseload renewable generation is not in the best interest of Michigan citizens and ratepayers.

Conclusion

Members of the IPPC have not asked for anything more than what they've received for the past 30 years: fair and nondiscriminatory rates, based on actual utility costs with no adverse impact to ratepayers, providing a high level of public benefit and services. We want to remain an important part of our communities. Full and actual avoided costs in this case should be between 7.5 cents and 8 cents per kWh. That's no more than what utilities charge their industrial customers, and that is what is needed to sustain these diverse, existing, long-term, baseload renewable generators. In short, these are not the highest numbers that the IPPC members wish they could receive from avoided costs, but they are the just, reasonable and fair rates that are in the public interest that PURPA requires.

The PSC's avoided cost methodology has many faults, but one of the more serious ones is applying MISO-based rates for energy and capacity on a year-to-year basis that is not long-term, and is not how regulated utilities recover their costs.

IPPC members have good reason to be part of Michigan's energy portfolio. In addition to power generation and diversification of renewable energy resources, we provide good jobs, in some cases to a second generation of workers; in communities with challenging unemployment where good jobs are hard to come by; where livelihoods and families are built on the value of their natural resources. We sponsor local soccer teams and buy goods from the local hardware and lumberyards. We provide recreational waters where people live, play, and raise their families. We maximize the value of waste materials like trash, scrap tires and wood from local sawmills by extracting energy from them. We generate electricity in areas of the state that bring reliability to the grid and minimize the need for transmission, which helps everyone in the state.

IPPC is not without options. We are preparing to appeal the Commission orders to the Federal Energy Regulatory Commission (FERC), stating that the Commission actions in this case were discriminatory and a violation of PURPA law. It will be a first-of-its-kind case at FERC because it's not just one company bringing the appeal, but a whole set of existing, diverse power generators in a state that have been aggrieved by a state Commission's actions that knowingly puts viable existing generators out of business.

Finally, setting avoided cost is not the exclusive purview of the Commission. In other states avoided cost has been set by the legislature, and IPPC is pursuing legislation to ensure our facilities keep running, our workers keep working, and we can continue to provide Michigan with affordable, baseload renewable energy, like we have for more than three decades. Negotiations with Consumers Energy have failed, and the avoided costs we expect from the Commission in this case doesn't reflect full and avoided costs and will cause harm. Thus, we're ready to work with the legislature and stakeholders to find that solution.

Independent renewable power producers are a big part of a "no regrets" energy future, and we believe we are exactly what Gov. Rick Snyder was talking about in his 2012 Special Message on Energy.

- It is ***affordable*** – no higher than the utility full avoided cost;
- It is ***reliable*** – making the grid more resilient, and often outperforming the productivity of the large generators;
- It is ***adaptable*** – made from local resources and non-commodity fuels;
- It is good for the ***environment*** – by capturing energy from renewable resources, offsetting fossil carbon and other emissions, and making beneficial use from waste materials.

Independent Power Producers Coalition of Michigan *(IPPC)*

House Energy Policy Committee

October 31, 2017

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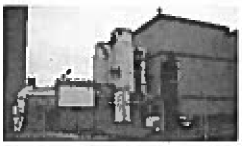
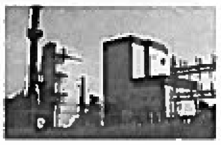
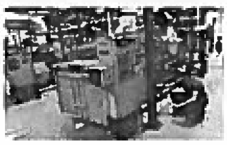
IPPC

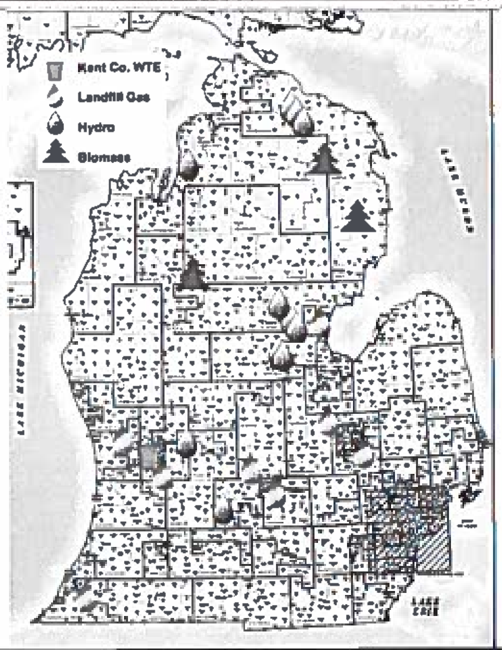
Qualified Facilities (QFs) =<20 MW



Hydro		Biomass		Waste-to-Energy	
Boyce Hydro…	10.50 MW	Hillman Power…	18 MW	Kent County…	17 MW
Elk Rapids Hydro…	0.76 MW	Viking/Lincoln…	18 MW	**Landfill gas**	
White's Bridge…	0.75 MW	Viking/McBain…	18 MW	Energy Development Inc…	15 MW
Tower-Kleber…	2.86 MW				
City of Beaverton…	0.96 MW				







Kent County Waste to Energy Facility 17 MW

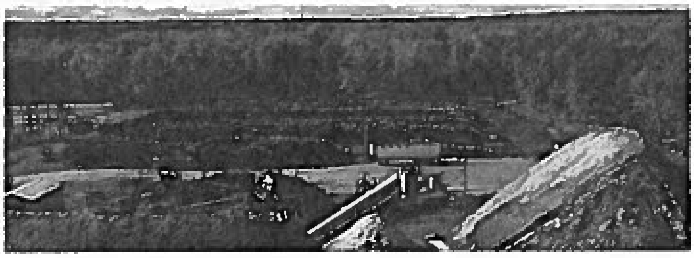
- Integrated solid waste management plan
- Up to 625 tons of municipal waste daily
- 185,000 tons MSW/year
- 40 jobs
- $4.5 million payroll

Energy Development Inc. 15 MW

- Formerly Granger Energy
- 15 MW *(PURPA)*
  - Ottawa, Byron Center, Grand Blanc, and Pinconning
- 20 MW *(Other PPAs)*

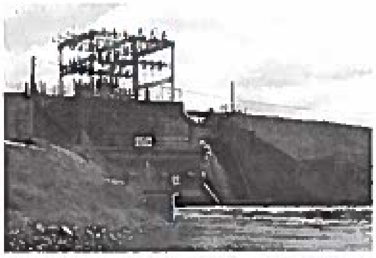
Viking Energy/McBain 18 MW

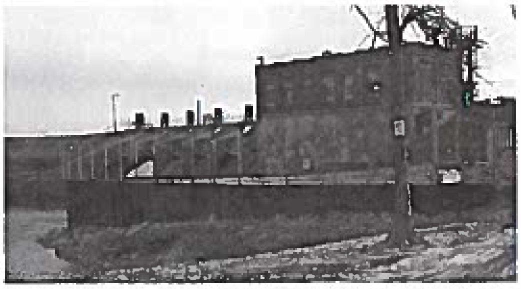
- Commissioned 1988
- 23 employees
- $1 million payroll & benefits
- 1 million scrap tires
- 200,000 tons of wood wastes
- $250,000 local taxes



Boyce Hydro 10.5 MW
(Sanford, Edenville, Secord, Smallwood)

Built	1923
Electrified	1925
Acquired	2006





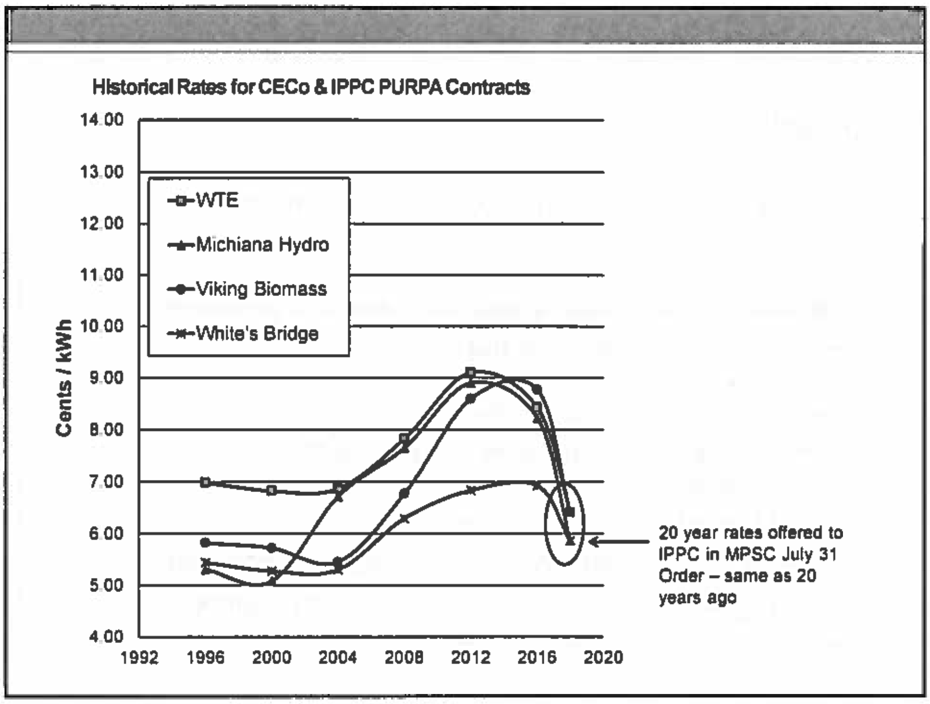
Bellevue Mill .045 MW

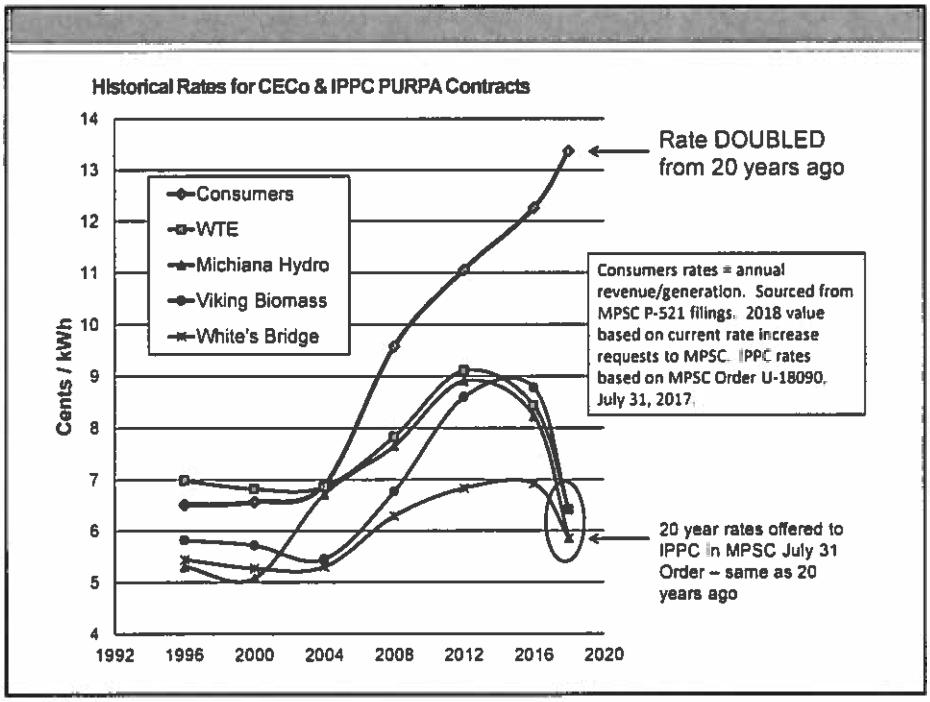
Built	1854
Abandoned	1955
Electrified	1982

Bellevue Mill: 1974 and today

Elk Rapids Hydro .700 MW

Built	1916
Abandoned	1965
Electrified	1984


Historical Rates for CECo & IPPC PURPA Contracts
14.00
13.00
12.00
11.00
10.00
9.00
8.00
7.00
6.00
5.00
4.00
Cents / kWh
WTE
Michiana Hydro
Viking Biomass
White's Bridge
1992
1996
2000
2004
2008
2012
2016
2020
20 year rates offered to IPPC in MPSC July 31 Order – same as 20 years ago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Rate DOUBLED from 20 years ago
Consumers rates = annual revenue/generation. Sourced from MPSC P-521 filings. 2018 value based on current rate increase requests to MPSC. IPPC rates based on MPSC Order U-18090, July 31, 2017.
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Conclusions

- Avoided cost rates approved by the Commission…
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- Appeal to FERC unprecedented; scope of "aggrieved"
- We *ARE* Gov. Snyder's "no regrets" energy future
- Legislation will provide certainty & sustainability

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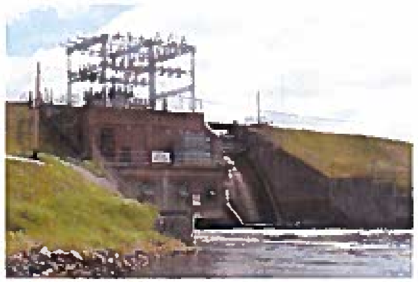

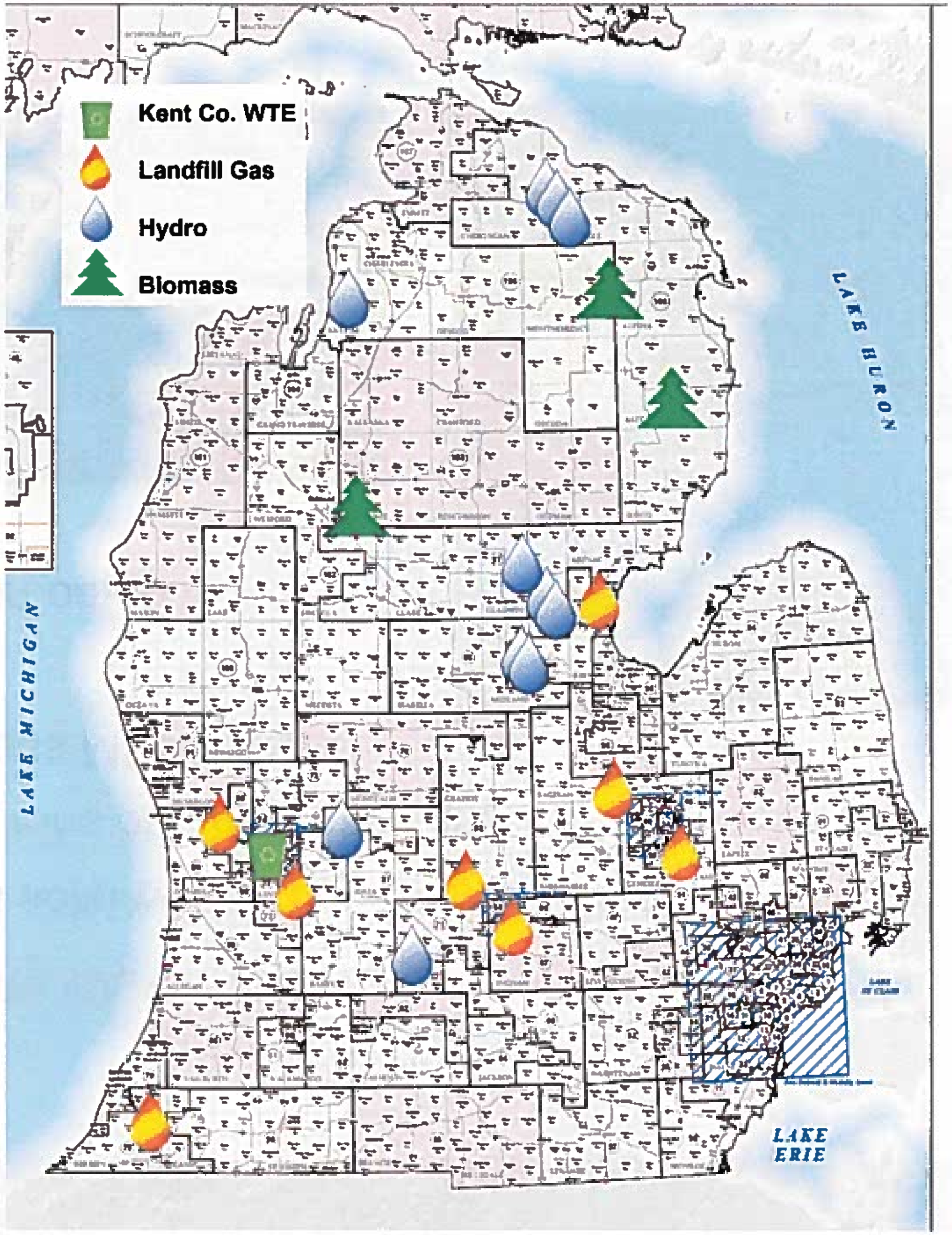
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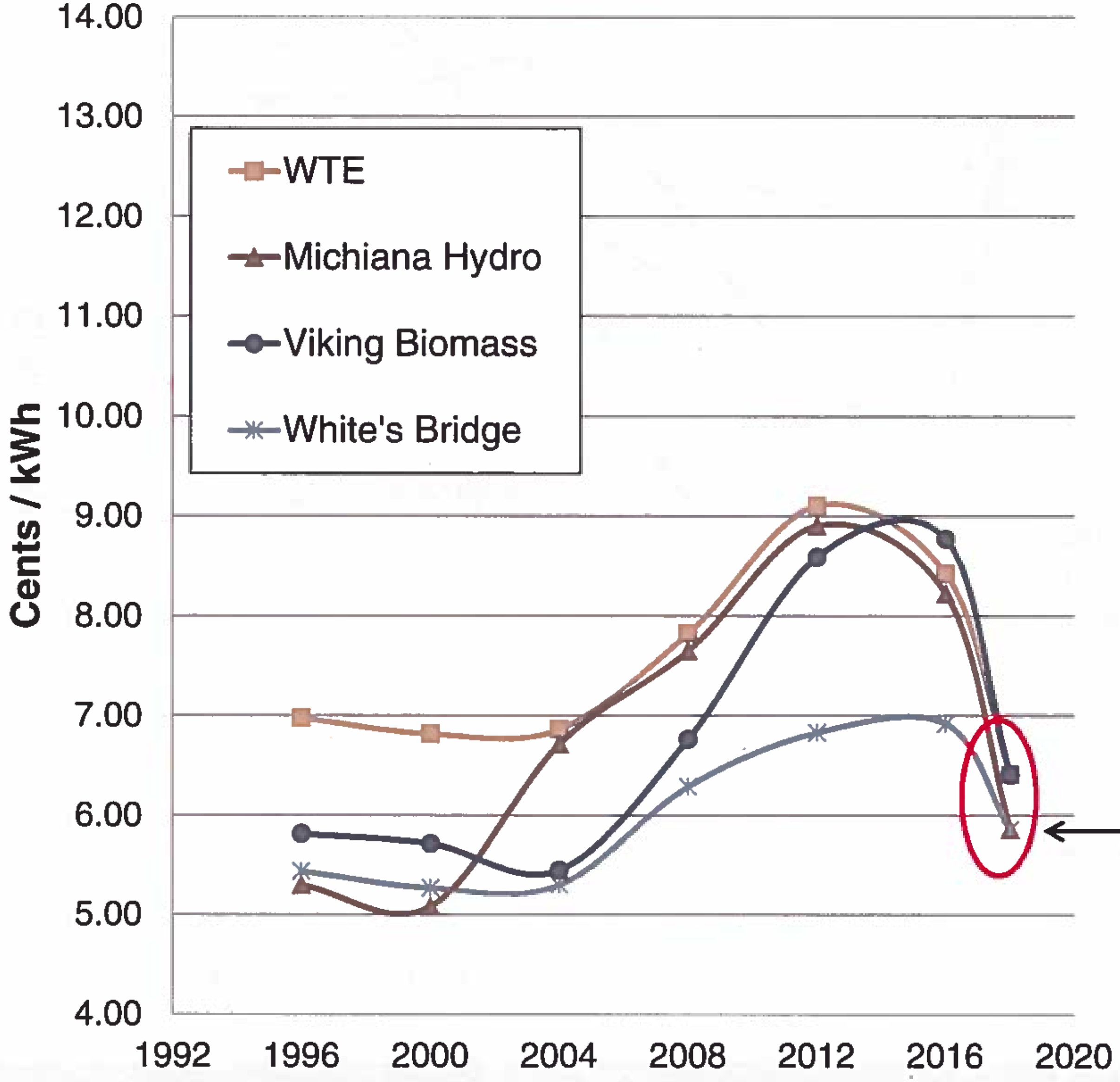

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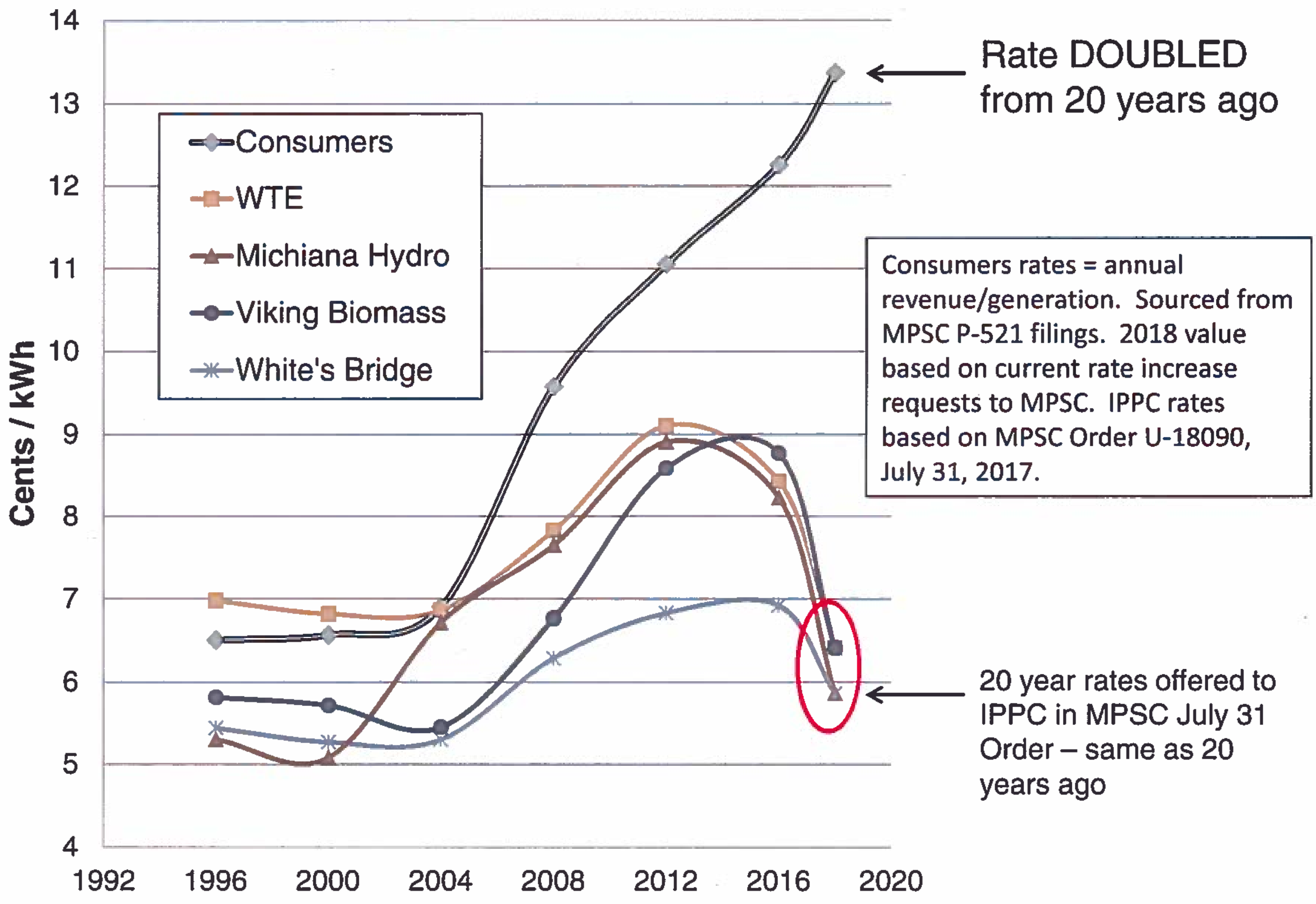

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